

**MARSHALL COUNTY SCHOOL DISTRICT**

BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS

Year ended June 30, 2009

**MARSHALL COUNTY SCHOOL DISTRICT**  
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## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits  
and Members of the Board of Education  
Marshall County School District  
Benton, Kentucky

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Marshall County School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshall County School District as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 13, 2009, on my consideration of the Marshall County School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 36 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marshall County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Marshall County School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Benton, Kentucky  
November 13, 2009

**MARSHALL COUNTY PUBLIC SCHOOL DISTRICT – BENTON, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2009**

As management of the Marshall County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning balance of all funds (general, special revenue, capital outlay, building, construction and food service) for the District totaled \$4,687,606.35. In addition, \$302,247.71 was escrowed for sick leave payable upon retirement and \$652,007.11 was escrowed for KSFCC (Kentucky School Facility Construction Commission). The combination of “all funds” yielded \$43,722,694.86 in revenue (not including beginning balances or escrowed funds), which primarily consisted of the state program (SEEK), property, occupational, utilities, in lieu and motor vehicle taxes. The combination of “all funds” yielded \$44,306,645.74 in expenditures. The ending balance for all funds was \$4,103,655.47.
- Property assessments generated on August 1, 2008 and then certified to the District Board of Education by the Commissioner, showed total real and personal property valuation at \$1,738,118,271 and motor vehicle valuation at \$243,643,288. At a real estate rate of 35.6 and personal property tax rate of 35.6 cents per \$100 of assessed property, the calculated collection would yield \$6,187,701. The actual percentage collected was 95.3% for a total of \$5,895,447. At a motor vehicle property tax rate of 30.0 cents per \$100 of assessed property, the calculated collection would yield \$730,930. The actual percentage collected was 94.7% for a total of \$705,100.
- During FY09, the District received \$15,848,088 in state Support Education Excellence in Kentucky (SEEK) funds. This is \$157,488 less than the prior year. The guaranteed per pupil base increased by 1.15% from \$3,822 to \$3,866 per student. Transportation was not fully funded through the SEEK calculation during FY09. Full funding would have been \$1,902,434. Funding was prorated at 66.2% for a total of \$1,258,792 and a difference of \$643,642. Rising personnel costs and unpredictable fuel costs continue to make the reduction in transportation funding increasingly difficult to manage.
- Districts are funded through the SEEK calculation. A vital component of this calculation is the Average Daily Attendance (ADA). The final ADA for FY09 was 4,288.99. The District ADA showed no growth during the year. The growth is calculated by taking the difference between the end of the second month attendance figures in the prior year (FY08) and the end of the second month attendance figures in the current year (FY09).
- Salary increases during FY09 were set at 1.0 percent. This represents the minimum mandated by the Kentucky Department of Education. Part-time employees were limited to a pro rata share of the salary increase. In addition, the District must pay for small and large step increases and rank changes which year to year will add approximately 1.5% in salary costs. The District must also pay for associated benefits.
- The District’s ending general fund balance decreased by approximately 10.28% during FY 08-09. This was largely caused by a flat funding of the SEEK guaranteed base per student, the additional proration of transportation (over and above the prior year) and the additional cut in grants which the District chose to subsidize.
- Utilities receipts were down 1.65% from the prior year. At a dollar decrease of \$53,986.23, the total collection for the year was \$3,278,061. During any given year, the increase or decrease can be attributed to a combination of usage, fluctuating prices and rate of collection. The Department of Revenue (DOR) collects the utilities tax on behalf of the school districts in Kentucky for a fee not to exceed one percent.

- The level at which grants are subsidized by the District remains significant. As a number of variables cause grant awards to fluctuate, the District must either subsidize the individual grant or make cuts in the program. During FY09, the District spent \$731,539.88 to supplement programs as follows: Technical Center, 69.29%, Safe Schools, 17.54%, Gifted and Talented, 7.16%, Professional Development, 3.95%, Family Resource, 1.89% and Adult Learning Center, .17%. At 69.29% of the total, the District spent \$506,883.93 from the general fund to assist operations of the Technical Center in FY09.
- There remains a focus on investing in plant management, considering the age and size of our facilities. This process will be achieved using building priorities as compiled in the facilities plan combined with available funding.
- Electricity expenses were up 7.42% over the prior year for a total expenditure of \$888,747. Natural gas expenditures were down 15.39% from the prior year with \$232,410 being spent as compared with \$274,681 in the prior year. These percentages only reflect actual dollars spent during the year and do not factor in any differences in usage from year to year.
- Beginning in April, the Systems Administrator for the district put into action a “Power Saving Energy Plan” designed to conserve energy by shutting down or putting into standby mode every computer in the district (after 5:00 p.m. every week day and all day on Saturdays and Sundays). His formula to calculate the total cost of unused electrical consumption yields a projected savings of \$32,910 per year.
- Funds spent on diesel fuel were down 30.97% from the prior year with a total expenditure of \$175,349. Gasoline expenditures were down 16.93% from the prior year with a total expenditure of \$36,297. The percentages noted only compare actual dollars spent during the years and do not factor in any differences in usage.
- Most classified personnel are covered under the County Employee’s Retirement System (CERS). This year, contributions to the plan consisted of an employee contribution of 5.0% and an employer contribution of 13.50% of the amount that is subject to contribution. The employer match for CERS increased aggressively over the last few years and then dropped in 08-09:

<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>08-09</u>
6.34%	7.34%	8.48%	10.98%	13.19%	16.17%	13.50%

The decrease in matching requirement (for the employer contribution) from FY08 to FY09 for all funds resulted in a savings to the District of \$126,343.

- The District purchased three type C (72 passenger) busses during the year at a total cost of \$223,254.
- Members of the Kentucky General Assembly and other interested parties have expressed concern for several years that some of the financial data collected and reported by the Kentucky Department of Education (KDE) does not contain a sufficient level of detail to adequately inform certain decisions or to allow valid comparisons with other states. In order to address this concern, KDE was instructed to make revisions to the Chart of Accounts (COA) currently used by Kentucky school districts. The Marshall County School District was asked to be one of ten pilot districts across our state. Pilot districts were instructed to complete the project by the end of the FY 08-09 fiscal year. The project required local school districts to make revisions to their existing charts of accounts with the goal of having more accurate and consistent coding and providing more accurate financial data, thereby allowing district program personnel to more effectively review their program’s impact on student achievement. The Commissioner listed (in an email sent to State Munis Finance Contacts on 11/7/08) some of the educational and financial benefits to districts as a result of the changes in the COA:

- Districts will have more specific and accurate data to make improved program and budgeting decisions.
- The General Assembly, district program staff and administrators can tie program funding and expenditures to program outcomes as an indicator of program success. Program success could lead to additional program funding.
- The changes promote public participation in the school system, while providing accessible, accurate school financial data. This will boost public confidence in district financial data at the district and state level.
- Specific clarification of data elements will be supported by detailed definitions, which will provide consistency in reporting.
- Districts, KDE and OEA can more accurately evaluate program efficiency and effectiveness.
- Districts, the public and the General Assembly can compare revenues and expenditures across Kentucky and nationally.

Some coding changes are not noticeable in the AFR and other reports because the new coding stayed within the same segments. Other coding did affect the overall flow of numbers from prior year to current.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 through 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations and our self-insurance dental fund. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 35 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$24,628,576 as of June 30, 2009.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

	<b>Net Assets for the period ending</b>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Current Assets	\$ 6,268,619	\$ 7,012,953
Noncurrent Assets	<u>42,204,062</u>	<u>42,981,631</u>
<b>Total Assets</b>	<b><u>48,472,681</u></b>	<b><u>49,994,584</u></b>
Current Liabilities	2,250,781	2,288,373
Noncurrent Liabilities	<u>20,964,670</u>	<u>22,313,680</u>
<b>Total Liabilities</b>	<b><u>23,215,451</u></b>	<b><u>24,602,053</u></b>
Net Assets		
Investment in capital assets (net of debt)	20,534,999	20,180,637
Restricted for:		
KSFCC escrow	652,007	598,583
Capital projects	552,776	587,870
Unrestricted	<u>3,517,448</u>	<u>4,025,441</u>
<b>Total Net Assets</b>	<b><u>\$ 25,257,230</u></b>	<b><u>\$ 25,392,531</u></b>

The following presents a summary of revenue and expense for the fiscal year ended June 30, 2009, compared to the fiscal year ended June 30, 2008.

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>Program Revenues:</b>		
Charges for Services-Governmental	\$ 1,435	\$ 2,547
Charges for Services-Food Service	856,636	848,849
Operating Grants-Governmental	10,803,114	10,918,648
Operating Grants-Food Service	1,487,770	1,375,676
Capital Grants	<u>1,290,511</u>	<u>1,141,345</u>
<b>Total program revenues</b>	<b><u>14,439,466</u></b>	<b><u>14,287,065</u></b>
<b>General Revenues:</b>		
Taxes	13,347,927	12,769,925
Earnings on investments	159,154	409,514
State and formula grants	15,848,089	16,032,657
Gain on retirement of assets	0	14,127
Miscellaneous	<u>1,187</u>	<u>954</u>
<b>Total general revenues</b>	<b><u>29,356,357</u></b>	<b><u>29,227,177</u></b>

**Expenses:**

Instruction	27,228,268	27,025,528
Student support services	1,546,255	1,351,495
Instructional support	1,320,571	1,269,214
District administration	1,235,623	1,677,269
School administration	1,873,047	1,771,300
Business support	927,098	764,646
Plant operations	4,139,322	3,483,143
Student transportation	1,967,717	2,177,478
Community services	266,782	268,160
Food Service Operation	2,393,383	2,464,637
Adult education	2,961	3,157
Interest on long-term debt	952,175	1,058,528
Loss on disposal of fixed assets	48,286	1,347
Other Debt Service	29,636	98,461
<b>Total expenses</b>	<b><u>43,931,124</u></b>	<b><u>43,414,363</u></b>
<b>Change in Net Assets</b>	<b><u>(135,301)</u></b>	<b><u>99,879</u></b>
<b>Ending Net Assets</b>	<b><u>\$ 25,257,230</u></b>	<b><u>\$ 25,392,531</u></b>

**Revenue Recap**

The majority of revenues were derived from state funding (57.23%) followed by local funding (32.79%), federal funding (8.79%), inter-fund transfers (.78%) and intermediate sources (.41%).

**Expenditure Recap**

Instruction expenditures made up the majority at (58.48%) followed by Plant Operations (9.44%), Food Services (5.27%), Student Transportation (4.70%), School Administration (4.24%), Debt Services (4.05%), Student Support Services (3.49%), Instructional Support (2.99%), District Administration (2.97%), Business Support (2.22%), Fund Transfers (.77%), Building Renovations/Additions (.77%) and Community Services (.61%).

**COMMENTS ON BUDGET COMPARISONS**

Reported on-behalf payments are non-budgetary accounts as instructed by the Kentucky Department of Education. As such, they cause revenues and expenditures to be overstated in the areas in which they are reported. The on-behalf payments for FY 09 are \$2,408,175.71 for Teacher Retirement and \$3,898,230.67 for Health and Life for a total of \$6,306,406.38. In the Statement of Revenues, Expenditures and Changes in Fund Balance located on page 36, the on-behalf payment is included in the "Intergovernmental – State" revenue line item and is prorated to each function according to the percentage of salaries.

**ADDITIONAL NOTES**

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal grants, operate on a different fiscal calendar, but are reflected in the District overall budget. By law the general fund budget must have a minimum 2% contingency. The Kentucky Department of Education recommends at least 4%, and recognizes 10% as being appropriate. The FY09 working budget was approved at the September 18, 2008 Board of Education meeting. Over the course of the year, the District revised the annual operating budget several times. Kentucky districts are required to present to the Board of Education a Draft Budget, Tentative Working Budget, and Working Budget. Significant amendments after the passage of the Working Budget are brought to the Board of Education (during the Treasurer's report) for subsequent review.

Questions regarding this report should be directed to the Superintendent or Finance Officer at (270)527-8628 or by mail at 86 High School Road, Benton, KY 42025.

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF NET ASSETS**  
June 30, 2009

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS:</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 4,371,236	\$ 117,518	\$ 4,488,754
Investments	170,398	0	170,398
Inventory	0	28,900	28,900
Accounts receivable:			
Taxes - current	854,836	0	854,836
Taxes - delinquent	22,481	0	22,481
Accounts receivable	25,775	4,696	30,471
Due from school activity funds	7,172	0	7,172
Interest	2,355	0	2,355
Intergovernmental - state	187,210	0	187,210
Intergovernmental - indirect federal	247,951	96,928	344,879
Unamortized bond issue costs	131,163	0	131,163
<b>Total current assets</b>	<b>6,020,577</b>	<b>248,042</b>	<b>6,268,619</b>
<b>Noncurrent Assets:</b>			
Capital assets	70,096,401	1,318,268	71,414,669
Less: Accumulated depreciation	(28,274,779)	(935,828)	(29,210,607)
<b>Total noncurrent assets</b>	<b>41,821,622</b>	<b>382,440</b>	<b>42,204,062</b>
<b>TOTAL ASSETS</b>	<b>\$ 47,842,199</b>	<b>\$ 630,482</b>	<b>\$ 48,472,681</b>
<b>LIABILITIES :</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 485,865	\$ 1,828	\$ 487,693
Due to school activity funds	5,741	0	5,741
Deferred revenue	165,541	0	165,541
Current portion of bond obligations	1,310,000	0	1,310,000
Current portion of capital lease payable	41,691	0	41,691
Current portion of accrued sick leave	102,732	0	102,732
Interest payable	137,383	0	137,383
<b>Total current liabilities</b>	<b>2,248,953</b>	<b>1,828</b>	<b>2,250,781</b>
<b>Noncurrent Liabilities:</b>			
Noncurrent portion of bond obligations	20,630,000	0	20,630,000
Less: Unamortized bond discount	(225,457)	0	(225,457)
Noncurrent portion of capital lease payable	43,992	0	43,992
Noncurrent portion of accrued sick leave	516,135	0	516,135
<b>Total noncurrent liabilities</b>	<b>20,964,670</b>	<b>0</b>	<b>20,964,670</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 23,213,623</b>	<b>\$ 1,828</b>	<b>\$ 23,215,451</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	\$ 20,152,559	\$ 382,440	\$ 20,534,999
Restricted for:			
KSFCC escrow	652,007	0	652,007
Capital projects	552,776	0	552,776
Unrestricted	3,271,234	246,214	3,517,448
<b>TOTAL NET ASSETS</b>	<b>\$ 24,628,576</b>	<b>\$ 628,654</b>	<b>\$ 25,257,230</b>

See independent auditor's report and accompanying notes to financial statements

**MARSHALL COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2009

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>							
<b>Governmental Activities:</b>							
Instruction	\$ 27,228,268	\$ 0	\$ 8,439,050	\$ 1,290,511	\$ (17,498,707)	\$ 0	\$ (17,498,707)
Support Services:							
Student	1,546,255	0	321,474	0	(1,224,781)	0	(1,224,781)
Instructional Staff	1,320,571	0	418,757	0	(901,814)	0	(901,814)
District Administration	1,235,623	0	107,058	0	(1,128,565)	0	(1,128,565)
School Administration	1,873,047	0	400,326	0	(1,472,721)	0	(1,472,721)
Business	927,098	0	150,177	0	(776,921)	0	(776,921)
Plant operations and maintenance	4,139,322	1,435	208,398	0	(3,929,489)	0	(3,929,489)
Student transportation	1,967,717	0	366,101	0	(1,601,616)	0	(1,601,616)
Food service	7,147	0	0	0	(7,147)	0	(7,147)
Community service activities	266,782	0	271,569	0	4,787	0	4,787
Interest on long-term debt	952,175	0	120,204	0	(831,971)	0	(831,971)
Loss on disposal of fixed assets	37,146	0	0	0	(37,146)	0	(37,146)
Other debt service	29,636	0	0	0	(29,636)	0	(29,636)
<b>Total governmental activities</b>	<b>41,530,787</b>	<b>1,435</b>	<b>10,803,114</b>	<b>1,290,511</b>	<b>(29,435,727)</b>	<b>0</b>	<b>(29,435,727)</b>
<b>Business-Type Activities:</b>							
Food service	2,386,236	856,636	1,487,770	0	0	(41,830)	(41,830)
Loss on disposal of fixed assets	11,140	0	0	0	0	(11,140)	(11,140)
Adult education	2,961	0	0	0	0	(2,961)	(2,961)
<b>Total business-type activities</b>	<b>2,400,337</b>	<b>856,636</b>	<b>1,487,770</b>	<b>0</b>	<b>0</b>	<b>(55,931)</b>	<b>(55,931)</b>
<b>Total primary government</b>	<b>\$ 43,931,124</b>	<b>\$ 858,071</b>	<b>\$ 12,290,884</b>	<b>\$ 1,290,511</b>	<b>(29,435,727)</b>	<b>(55,931)</b>	<b>(29,491,658)</b>
<b>General Revenues:</b>							
Taxes:							
Property					6,039,756	0	6,039,756
Motor Vehicle					705,100	0	705,100
Utilities					3,278,062	0	3,278,062
Occupational license tax					1,893,745	0	1,893,745
In Lieu of					1,431,264	0	1,431,264
Earnings on Investments					155,851	3,303	159,154
State and formula grants					15,848,089	0	15,848,089
Miscellaneous					1,187	0	1,187
<b>Change in net assets</b>					<b>(82,673)</b>	<b>(52,628)</b>	<b>(135,301)</b>
Net assets at July 1, 2008					24,711,249	681,282	25,392,531
Net assets at June 30, 2009					<b>\$ 24,628,576</b>	<b>\$ 628,654</b>	<b>\$ 25,257,230</b>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2009

	General Fund	Special Revenue Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS AND RESOURCES:</b>					
Cash and cash equivalents	\$ 3,262,765	\$ (192,896)	\$ 652,007	\$ 649,360	\$ 4,371,236
Investments	170,398	0	0	0	170,398
Accounts receivable:					
Taxes - current	854,836	0	0	0	854,836
Taxes - delinquent	22,481	0	0	0	22,481
Accounts receivable	25,562	213	0	0	25,775
Due from school activity funds	7,172	0	0	0	7,172
Interest	2,355	0	0	0	2,355
Intergovernmental - state	0	187,210	0	0	187,210
Intergovernmental - indirect federal	0	247,951	0	0	247,951
<b>TOTAL ASSETS AND RESOURCES</b>	<b>\$ 4,345,569</b>	<b>\$ 242,478</b>	<b>\$ 652,007</b>	<b>\$ 649,360</b>	<b>\$ 5,889,414</b>
<b>LIABILITIES AND FUND BALANCE:</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 408,928	\$ 76,937	\$ 0	\$ 0	\$ 485,865
Due to school activity funds	5,741	0	0	0	5,741
Deferred revenue	0	165,541	0	0	165,541
Current portion of accrued sick leave	102,732	0	0	0	102,732
<b>TOTAL LIABILITIES</b>	<b>517,401</b>	<b>242,478</b>	<b>0</b>	<b>0</b>	<b>759,879</b>
<b>FUND BALANCES:</b>					
Reserved for:					
Encumbrances	3,314	0	0	0	3,314
Accrued sick leave	302,248	0	0	0	302,248
KSFCC escrow	0	0	652,007	0	652,007
Construction projects	0	0	0	221,255	221,255
Unreserved:					
Undesignated, reported in:					
General fund	3,522,606	0	0	0	3,522,606
Capital projects funds	0	0	0	331,521	331,521
Debt service funds	0	0	0	96,584	96,584
<b>TOTAL FUND BALANCES</b>	<b>3,828,168</b>	<b>0</b>	<b>652,007</b>	<b>649,360</b>	<b>5,129,535</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,345,569</b>	<b>\$ 242,478</b>	<b>\$ 652,007</b>	<b>\$ 649,360</b>	<b>\$ 5,889,414</b>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS**

June 30, 2009

Total fund balance per fund financial statements	\$ 5,129,535
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets	41,821,622
Certain assets (such as unamortized bond issue costs) are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets	131,163
Certain liabilities (such as bonds and capital leases payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets	<u>(22,453,744)</u>
Net assets for governmental activities	<u><u>\$ 24,628,576</u></u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2009

	General Fund	Special Revenue Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
From Local Sources:					
Taxes:					
Property	\$ 5,048,875	\$ 0	\$ 990,881	\$ 0	\$ 6,039,756
Motor Vehicle	705,100	0	0	0	705,100
Utilities	3,278,062	0	0	0	3,278,062
Occupational license tax	1,893,745	0	0	0	1,893,745
In Lieu of	1,388,214	0	0	0	1,388,214
Tuition	0	214	0	0	214
Earnings on Investments	149,183	808	0	6,668	156,659
Other local revenues	23,079	0	0	0	23,079
Intergovernmental - State	22,008,889	1,756,397	555,254	834,260	25,154,800
Intergovernmental - indirect federal	0	2,793,755	0	0	2,793,755
<b>TOTAL REVENUES</b>	<b>34,495,147</b>	<b>4,551,174</b>	<b>1,546,135</b>	<b>840,928</b>	<b>41,433,384</b>
<b>EXPENDITURES:</b>					
Current:					
Instruction	21,930,397	3,978,718	0	0	25,909,115
Support Services:					
Student	1,518,092	28,163	0	0	1,546,255
Instructional Staff	1,100,389	225,231	0	0	1,325,620
District Administration	1,292,540	21,845	0	0	1,314,385
School Administration	1,878,923	0	0	0	1,878,923
Business	983,913	0	0	0	983,913
Plant operations and maintenance	4,183,516	0	0	0	4,183,516
Student transportation	1,964,078	118,893	0	0	2,082,971
Food service	7,147	0	0	0	7,147
Community service activities	(4,787)	271,569	0	0	266,782
Facilities acquisition and construction	0	0	0	343,366	343,366
Debt service	2,250	0	0	2,188,671	2,190,921
<b>TOTAL EXPENDITURES</b>	<b>34,856,458</b>	<b>4,644,419</b>	<b>0</b>	<b>2,532,037</b>	<b>42,032,914</b>
Excess (deficit) of revenues over expenditures	(361,311)	(93,245)	1,546,135	(1,691,109)	(599,530)
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in	0	93,245	0	2,040,090	2,133,335
Operating transfers out	(259,611)	0	(1,614,097)	(259,627)	(2,133,335)
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<b>(259,611)</b>	<b>93,245</b>	<b>(1,614,097)</b>	<b>1,780,463</b>	<b>0</b>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(620,922)	0	(67,962)	89,354	(599,530)
<b>Fund Balance, July 1, 2008</b>	<b>4,449,090</b>	<b>0</b>	<b>719,969</b>	<b>560,006</b>	<b>5,729,065</b>
<b>Fund Balance, June 30, 2009</b>	<b>\$ 3,828,168</b>	<b>\$ 0</b>	<b>\$ 652,007</b>	<b>\$ 649,360</b>	<b>\$ 5,129,535</b>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES**  
 For the Year Ended June 30, 2009

Net change in total fund balances per fund financial statements	\$ (599,530)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$(2,107,781), loss on the retirement of fixed assets of \$(37,146), and proceeds from the sale of fixed assets of \$(6,471) exceeded capital outlays of \$1,445,098 in the current period	(706,300)
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. This is the amount by which bond principal paid of \$1,245,000 and capital lease obligations paid of \$46,420 exceeds capital lease proceeds of \$(132,103), amortization of bond issue costs of \$(10,658), and amortization of bond discount of \$(16,728)	1,131,931
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the decrease in compensated absences of \$99,730 and the increase in interest payable of \$(8,504)	<u>91,226</u>
Change in net assets of governmental activities	<u><u>\$ (82,673)</u></u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2009

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>ASSETS:</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 117,518	\$ 0	\$ 117,518	\$ 275,491
Inventory	28,900	0	28,900	0
Accounts receivable:				
Intergovernmental - indirect federal	96,928	0	96,928	0
Other accounts receivable	4,696	0	4,696	0
<b>Total current assets</b>	<b>248,042</b>	<b>0</b>	<b>248,042</b>	<b>275,491</b>
<b>Noncurrent Assets</b>				
Capital assets	1,155,357	162,911	1,318,268	0
Less: accumulated depreciation	(806,291)	(129,537)	(935,828)	0
<b>Total noncurrent assets</b>	<b>349,066</b>	<b>33,374</b>	<b>382,440</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>\$ 597,108</b>	<b>\$ 33,374</b>	<b>\$ 630,482</b>	<b>\$ 275,491</b>
<b>LIABILITIES:</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 1,828	\$ 0	\$ 1,828	\$ 0
Estimated claims payable, current	0	0	0	30,539
<b>Total current liabilities</b>	<b>\$ 1,828</b>	<b>\$ 0</b>	<b>\$ 1,828</b>	<b>\$ 30,539</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 349,066	\$ 33,374	\$ 382,440	\$ 0
Unrestricted	246,214	0	246,214	244,952
<b>Total net assets</b>	<b>\$ 595,280</b>	<b>\$ 33,374</b>	<b>\$ 628,654</b>	<b>\$ 244,952</b>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**

For the Year Ended June 30, 2009

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
<b>Operating Revenues:</b>				
Lunchroom sales	\$ 846,593	\$ 0	\$ 846,593	\$ 0
Other operating revenues	10,043	0	10,043	0
Charges for services from other funds	0	0	0	308,654
COBRA revenues	0	0	0	4,087
<b>Total operating revenues</b>	<b>856,636</b>	<b>0</b>	<b>856,636</b>	<b>312,741</b>
<b>Operating Expenses:</b>				
Salaries and benefits	1,151,672	0	1,151,672	0
Contract services	35,609	0	35,609	34,134
Materials and supplies	1,141,607	0	1,141,607	0
Expendable equipment	0	0	0	0
Depreciation	57,168	2,961	60,129	0
Claims paid	0	0	0	252,206
Other operating expenses	180	0	180	0
<b>Total operating expenses</b>	<b>2,386,236</b>	<b>2,961</b>	<b>2,389,197</b>	<b>286,340</b>
Operating income (loss)	<u>(1,529,600)</u>	<u>(2,961)</u>	<u>(1,532,561)</u>	<u>26,401</u>
<b>Non-Operating Revenues (Expenses):</b>				
Federal grants	1,091,140	0	1,091,140	0
Donated commodities	150,723	0	150,723	0
State grants	245,907	0	245,907	0
Interest income	3,303	0	3,303	4,437
<b>Total non-operating revenues</b>	<b>1,491,073</b>	<b>0</b>	<b>1,491,073</b>	<b>4,437</b>
Net income (loss) before transfers	(38,527)	(2,961)	(41,488)	30,838
Gain (loss) on fixed assets	<u>(11,140)</u>	<u>0</u>	<u>(11,140)</u>	<u>0</u>
Change in net assets	(49,667)	(2,961)	(52,628)	30,838
<b>Net Assets, July 1, 2008</b>	<b>644,947</b>	<b>36,335</b>	<b>681,282</b>	<b>214,114</b>
<b>Net Assets, June 30, 2009</b>	<b><u>\$ 595,280</u></b>	<b><u>\$ 33,374</u></b>	<b><u>\$ 628,654</u></b>	<b><u>\$ 244,952</u></b>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2009

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
<b>Cash Flows from Operating Activities:</b>				
Cash received from:				
Lunchroom sales	\$ 846,593	\$ 0	\$ 846,593	\$ 0
Other operating revenues	11,600	0	11,600	4,087
Charges for services from other funds	0	0	0	308,654
Cash paid to/for:				
Employees	(932,663)	0	(932,663)	0
Contract services	(35,609)	0	(35,609)	(34,134)
Materials and supplies	(982,259)	0	(982,259)	0
Other operating expenses	(180)	0	(180)	(254,569)
<b>Net cash provided by (used in) operating activities</b>	<u>(1,092,518)</u>	<u>0</u>	<u>(1,092,518)</u>	<u>24,038</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Operating grants received	1,097,025	0	1,097,025	0
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>1,097,025</u>	<u>0</u>	<u>1,097,025</u>	<u>0</u>
<b>Cash Flows from Investing Activities:</b>				
Interest income received	3,303	0	3,303	4,437
<b>Net cash provided by (used in) investing activities</b>	<u>3,303</u>	<u>0</u>	<u>3,303</u>	<u>4,437</u>
Net increase (decrease) in cash and cash equivalents	7,810	0	7,810	28,475
<b>Cash and cash equivalents, July 1, 2008</b>	<u>109,708</u>	<u>0</u>	<u>109,708</u>	<u>247,016</u>
<b>Cash and cash equivalents, June 30, 2009</b>	<u>\$ 117,518</u>	<u>\$ 0</u>	<u>\$ 117,518</u>	<u>\$ 275,491</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (1,529,600)	\$ (2,961)	\$ (1,532,561)	\$ 26,401
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	57,168	2,961	60,129	0
In-kind grant from state	219,009	0	219,009	0
Commodities used	150,723	0	150,723	0
Changes in assets and liabilities:				
Inventory	8,546	0	8,546	0
Accounts receivable	1,557	0	1,557	0
Accounts payable	79	0	79	(2,363)
<b>Net cash provided by operating activities</b>	<u>\$ (1,092,518)</u>	<u>\$ 0</u>	<u>\$ (1,092,518)</u>	<u>\$ 24,038</u>
<b>Non-Cash Investing, Capital, and Financing Activities:</b>				
Food commodities received	\$ 150,723	\$ 0	\$ 150,723	\$ 0
In-kind grant from state for benefits	219,009	0	219,009	0
<b>Total Non-Cash Investing, Capital, and Financing Activities</b>	<u>\$ 369,732</u>	<u>\$ 0</u>	<u>\$ 369,732</u>	<u>\$ 0</u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2009

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 289,037	\$ 493,540
Accounts receivable	495	17,364
Due from Governmental Funds	0	5,741
<b>Total Assets</b>	<b>\$ 289,532</b>	<b>\$ 516,645</b>
 <b>LIABILITIES:</b>		
Accounts payable	\$ 0	\$ 17,760
Due to Governmental Funds	0	7,172
Due to student groups	0	491,713
<b>Total Liabilities</b>	<b>\$ 0</b>	<b>\$ 516,645</b>
 <b>NET ASSETS HELD IN TRUST</b>	 <b>\$ 289,532</b>	 <b>\$ 0</b>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
For the Year Ended June 30, 2009

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Interest income	\$ 4,098
Contributions received	<u>44,733</u>
<b>Total Additions</b>	<u>48,831</u>
 <b>Deductions:</b>	
Fundraising expenses	1,544
Benefits paid	<u>53,900</u>
<b>Total Deductions</b>	<u>55,444</u>
Change in net assets	(6,613)
<b>Net assets, July 1, 2008</b>	<u>296,145</u>
<b>Net assets, June 30, 2009</b>	<u><u>\$ 289,532</u></u>

See independent auditor's report and accompanying notes to financial statements

**MARSHALL COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Marshall County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Marshall County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Marshall County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Marshall County School District Finance Corporation – In 1991, the Board of Education resolved to authorize the establishment of the Marshall County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Marshall County Finance Office – On September 1, 1968, the Marshall County Fiscal Court formed the Marshall County Finance Office as an agency of the Board for collecting the .5% occupational license tax for schools. When the District began providing office space and the salary for the collector of the tax, the fund was included as an Agency Fund on the District's financial statements. Based on format changes to the statements under GASB 34, the Finance Office Fund activities were combined with the General Fund.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include all financial activities of the District, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resources measurement focus.

Agency funds are not involved in the measurement of results of operations; therefore measurement focus is not applicable to them.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Fund Accounting

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 46. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
  - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a major fund of the District.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Fund Accounting – continued

II. Proprietary Fund Types (Enterprise and Internal Service Funds)

- (A) The Food Service Fund (Enterprise) is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.
- (B) The Adult Education Fund (Enterprise) is used to account for revenues from adult education programs.
- (C) The Self-insurance Dental Fund (Internal Service) is used to account for the financing of risk management for dental coverage.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) Agency funds account for activities held by the District in a purely custodial capacity. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- (B) The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, such as scholarships.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are included in inventory.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. Taxes collected are deposited into the General Fund or the FSPK Fund based on the proper allocation between funds.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund and FSPK Fund operations were \$.356 per \$100 valuation for real property, \$.356 per \$100 valuation for business personal property and \$.30 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

In addition, the District levies an occupational license tax of .5% on salaries, wages, commissions, and other compensation of individuals for work done and services performed or rendered in the county and on the net profits of all businesses, professions, or occupations from activities conducted in the county.

**MARSHALL COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
 Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements to land in excess of \$5,000 and to buildings in excess of \$10,000 are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments and the age and current pay rates of eligible employees.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "current portion of accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for revenues and expenses on the same basis as the actual financial statements, which is Generally Accepted Accounting Principles (GAAP).

Once the budget is approved, it can be amended. Significant amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the food service fund. Inventory consists of purchased food and donated commodities and is expensed when used. The purchased food is stated at cost and donated commodity inventory is stated at estimated value on date of receipt, with both types using the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2009 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. There were no prepaid items at June 30, 2009.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Investments

Investing is performed in accordance with investment policies complying with state statutes.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Debt Costs

Debt issuance costs and unamortized discounts are included in the government-wide statements. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the straight-line method.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for fixed assets, encumbrances, sick leave, KSFCC escrow and construction projects.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

Use of Restricted Sources

When an expense is incurred for which there are both restricted and unrestricted net assets available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE C – COMMITMENTS**

During the year ended June 30, 2009, the District took bids and awarded contracts for the re-finishing of the Marshall County High School gymnasium floor for \$26,500, re-surfacing of the Marshall County High School tennis courts for \$31,475, and a new maintenance truck for \$22,697. These contracts were completed and paid after year end.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE D – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's total cash and cash equivalents was \$5,546,822. Of the total cash balance, \$520,717 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2009 consisted of the following:

	Bank Balance	Book Balance
CFSB - interest bearing	\$ 6,189,069	\$ 5,276,674
CFSB - bond trust account	15,280	15,280
U S Bank - interest bearing	9,194	9,194
U S Bank - bond trust account	81,303	81,303
Heritage Bank - interest bearing	2,885	2,885
First Kentucky Bank - interest bearing	162,055	161,486
Total	\$ 6,459,786	\$ 5,546,822
Breakdown per financial statements:		
Governmental funds		\$ 4,371,236
Proprietary funds		393,009
Agency funds		782,577
Total		\$ 5,546,822

MARSHALL COUNTY SCHOOL DISTRICT  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
For the Year Ended June 30, 2009

**Note E - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

Governmental Activities	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
<b>Capital Assets:</b>				
Land	\$ 438,825	\$ 7,500	\$ 0	\$ 446,325
Land improvements	0	44,500	0	44,500
Buildings and improvements	57,485,195	347,599	0	57,832,794
Technology equipment	3,718,850	325,420	211,474	3,832,796
Vehicles	4,112,096	367,579	0	4,479,675
General Equipment	3,212,528	352,500	104,717	3,460,311
Totals at historical cost	<u>68,967,494</u>	<u>1,445,098</u>	<u>316,191</u>	<u>70,096,401</u>
<b>Less: Accumulated depreciation</b>				
Land improvements	0	742	0	742
Buildings and improvements	19,060,291	1,285,569	0	20,345,860
Technology equipment	2,790,663	344,596	200,955	2,934,304
Vehicles	2,567,268	298,334	0	2,865,602
General Equipment	2,021,350	178,540	71,619	2,128,271
Total accumulated depreciation	<u>26,439,572</u>	<u>2,107,781</u>	<u>272,574</u>	<u>28,274,779</u>
<b>Governmental Activities Capital Assets - Net</b>	<u><u>\$ 42,527,922</u></u>	<u><u>\$ (662,683)</u></u>	<u><u>\$ 43,617</u></u>	<u><u>\$ 41,821,622</u></u>
<b>Business-Type Activities</b>				
<b>Capital Assets:</b>				
Buildings and improvements	\$ 114,545	\$ 0	\$ 0	\$ 114,545
Technology equipment	98,528	0	0	98,528
General Equipment	1,118,921	0	13,726	1,105,195
Totals at historical cost	<u>1,331,994</u>	<u>0</u>	<u>13,726</u>	<u>1,318,268</u>
<b>Less: Accumulated depreciation</b>				
Buildings and improvements	81,328	2,291	0	83,619
Technology equipment	80,887	11,313	0	92,200
General Equipment	716,070	46,525	2,586	760,009
Total accumulated depreciation	<u>878,285</u>	<u>60,129</u>	<u>2,586</u>	<u>935,828</u>
<b>Business-Type Activities Capital Assets - Net</b>	<u><u>\$ 453,709</u></u>	<u><u>\$ (60,129)</u></u>	<u><u>\$ 11,140</u></u>	<u><u>\$ 382,440</u></u>

Depreciation expense was charged to governmental functions as follows:

Instructional	\$ 1,528,167
Instructional staff support	1,333
District administration	74,127
School administrative support	6,072
Business support	25,275
Plant operation and maintenance	252,991
Student transportation	219,816
Total depreciation expense	<u><u>\$ 2,107,781</u></u>

**MARSHALL COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2009

**NOTE F – BONDED DEBT AND CAPITAL LEASE OBLIGATIONS**

The amount shown in the accompanying government-wide financial statements as bond obligations represent the District's future obligations to make bond payments related to school building revenue bonds issued by the Marshall County School District Finance Corporation on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1998B	\$ 4,640,000	3.500% - 4.100%
1999	1,635,000	4.000% - 5.000%
2003	680,000	1.800% - 3.450%
2004	12,170,000	3.000% - 5.000%
2007	3,880,000	4.000% - 4.125%
2008	4,005,000	2.200% - 3.300%

The District, through the General Fund, SEEK Capital Outlay Fund and the Facility Support Program Levy Fund is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Marshall County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

In 1991 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table on the following page sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2009 for debt service (principal and interest) are as follows:

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE F – BONDED DEBT AND CAPITAL LEASE OBLIGATIONS – CONTINUED**

Year	Marshall County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2009-2010	\$ 1,018,390	\$ 805,007	\$ 291,610	\$ 110,004	\$ 2,225,011
2010-2011	1,046,916	768,968	303,084	98,529	2,217,497
2011-2012	1,097,018	730,803	117,982	90,444	2,036,247
2012-2013	937,577	703,474	122,423	86,003	1,849,477
2013-2014	972,884	671,082	127,116	81,310	1,852,392
2014-2015	1,003,009	638,840	131,991	76,435	1,850,275
2015-2016	1,037,860	601,957	137,140	71,287	1,848,244
2016-2017	1,082,415	561,754	142,585	65,840	1,852,594
2017-2018	1,116,706	519,045	148,294	60,132	1,844,177
2018-2019	1,185,267	474,089	134,733	54,148	1,848,237
2019-2020	1,244,492	414,965	140,508	48,373	1,848,338
2020-2021	1,308,465	352,891	146,535	42,347	1,850,238
2021-2022	1,372,178	287,628	152,822	36,059	1,848,687
2022-2023	1,435,618	219,189	159,382	29,499	1,843,688
2023-2024	1,498,773	147,533	166,227	22,654	1,835,187
2024-2025	568,403	72,725	121,597	15,512	778,237
2025-2026	593,539	49,989	126,461	10,648	780,637
2026-2027	618,322	25,506	131,678	5,432	780,938
	<u>\$ 19,137,832</u>	<u>\$ 8,045,445</u>	<u>\$ 2,802,168</u>	<u>\$ 1,004,656</u>	<u>\$ 30,990,101</u>

The District has financed some technology equipment through Dell Financial Services. This is considered to be a capital lease, as it is a lease/purchase with a buyout of \$1 at the end of the lease term. The amounts are not reflected on the fund financial statements. The amount financed was \$132,103, with annual payments of \$46,420, including interest. The initial payment was due in advance and there are two remaining payments as of June 30, 2009. The minimum obligations of the District at June 30, 2009 are as follows:

Year	Principal	Interest	Total
2009-2010	\$ 41,691	\$ 4,728	\$ 46,419
2010-2011	43,992	2,428	46,420
	<u>\$ 85,683</u>	<u>\$ 7,156</u>	<u>\$ 92,839</u>

A summary of changes in long-term debt is as follows:

Type	Balance June 30, 2008	Increase	Decrease	Balance June 30, 2009
Bonds payable	\$ 23,185,000	\$ 0	\$ 1,245,000	\$ 21,940,000
Capital lease - Dell	0	132,103	46,420	85,683
Non-current portion of sick leave	615,865	48,489	148,219	516,135
Totals	<u>\$ 23,800,865</u>	<u>\$ 180,592</u>	<u>\$ 1,439,639</u>	<u>\$ 22,541,818</u>

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE G – RETIREMENT PLANS**

Certified employees are covered under the Teachers Retirement System of Kentucky (“KTRS”), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers’ Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov>.

*Funding Policy* - Contribution rates are established by KRS. For members who have established an account in the retirement system administered by the Commonwealth prior to July 1, 2008, members are required to contribute 9.855% of their salaries to KTRS. Members hired on or after July 1, 2008 pay an additional 1% of their salary to the medical insurance fund. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions.

***Medical Insurance Plan***

*Plan description* – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding policy* – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Substantially all other employees (classified personnel) are covered under the County Employee’s Retirement System (“CERS”), a cost sharing, multiple-employer, public employers retirement system, defined benefit pension plan. Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 13.5% of the employee’s total compensation subject to contribution. Employees hired on or after September 1, 2008 pay an additional 1% of their salary to the medical insurance fund. CERS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Employee’s Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE G – RETIREMENT PLANS – CONTINUED**

The District's total payroll for the year was \$25,342,742. The payroll for employees covered under KTRS was \$19,807,035 and for CERS was \$5,234,253.

The District's contributions to CERS for the year ended June 30, 2009 was \$969,218 which consisted of \$706,624 from the Board and \$262,594 from the employees, equal to the required contributions for the year. The contributions required and paid for CERS for the years ended June 30, 2008 and 2007 were \$1,090,008 and \$835,527, respectively. The District has no contribution requirement to KTRS; however the District paid \$196,927 from federal grant monies to KTRS in matching contributions for federally funded employees and the state paid KTRS \$2,408,176 in matching contributions, which is included in these financial statements as "on-behalf" payments in both revenues and expenses. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

**NOTE H – CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE I – RISK MANAGEMENT**

The District is exposed to various risks of loss related to limited torts; injuries to employees; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Employees of the District were covered by the District's dental self-insurance plan (the "Plan"). The District contributed \$21.52 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Claims were paid by a third party administrator acting on behalf of the District. The administrative contract between the District and the Third party administrator is renewable annually and administrative fees are included in the contractual provisions. The costs associated with this self-insurance plan are reported as interfund transactions to the extent of amounts determined to be needed to fund the plan based on past history. Accordingly, they are treated as operating revenues of the Internal Service Fund and operating expenditures of the General, Special Revenue and Proprietary Funds. The liabilities of the Plan are based on estimated claims incurred but not yet reported to the third party administrator.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund.

**MARSHALL COUNTY SCHOOL DISTRICT**  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
Year ended June 30, 2009

**NOTE J - INVESTMENTS**

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or saving and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States Government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency.

At year end, the carrying amount of the District's investment was \$170,398, consisting of the following:

CFSB certificate of deposit	\$170,398
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The investment is a "held-to-maturity" type security and is valued at amortized cost. The fair market value of the investment at June 30, 2009 was \$170,398. The certificate of deposit is held in the general fund.

**NOTE K - DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$ 620,922
FSPK Fund	67,962
Construction Fund	87,779
Food Service Fund	49,667
Adult Education Fund	2,961
Private Purpose Trust Funds	6,613

**NOTE L - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**NOTE M - LITIGATION**

The District is subject to various legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

**MARSHALL COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
**Year ended June 30, 2009**

**NOTE N - TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Technology Match	\$ 93,245
Operating	General	Debt Service	Debt Service	166,366
Operating	Capital Outlay	Debt Service	Debt Service	236,565
Operating	Capital Outlay	Construction	Construction	23,062
Operating	FSPK	Debt Service	Debt Service	1,388,183
Operating	FSPK	Construction	Construction	225,914

**NOTE O – INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at June 30, 2009 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Agency Fund	\$ 7,172	\$ 5,741
Agency Fund:		
General Fund	5,741	7,172

**NOTE P – ON BEHALF PAYMENTS**

The Kentucky Department of Education makes certain payments on behalf of the District, including certain pension plan payments, health and life insurance premium payments and administrative fees. These payments have been recorded on the Statement of Activities by functional expense and as operating grants using the same functions and totaled \$6,306,407. This amount is not required to be included in the budgeted revenues or expenditures.

**NOTE Q – PRIOR PERIOD ADJUSTMENTS**

During the fiscal year, District personnel discovered some fixed assets that had not been tagged that had been purchased in a previous year. These assets were tagged at that time and added to the fixed asset system. The ending net assets from the prior year have been adjusted to account for these items as follows:

	Governmental Activities
Net Assets at June 30, 2008, per prior year audit report	\$ 24,610,503
Prior period adjustment for assets not tagged	<u>100,746</u>
Net Assets at June 30, 2008, as adjusted	<u>\$ 24,711,249</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
<b>REVENUES:</b>				
From Local Sources:				
Taxes:				
Property	\$ 4,943,807	\$ 4,943,807	\$ 5,048,875	\$ 105,068
Motor Vehicle	730,930	780,000	705,100	(74,900)
Utilities	3,198,370	3,554,000	3,278,062	(275,938)
Occupational license tax	1,563,980	1,575,000	1,893,745	318,745
In Lieu of	954,809	1,388,000	1,388,214	214
Earnings on Investments	181,668	150,000	149,183	(817)
Other local revenues	14,507	14,507	23,079	8,572
Intergovernmental - State	16,169,884	15,918,635	22,008,889	6,090,254
<b>TOTAL REVENUES</b>	<u>27,757,955</u>	<u>28,323,949</u>	<u>34,495,147</u>	<u>6,171,198</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction	17,523,810	17,763,471	21,930,397	(4,166,926)
Support Services:				
Student	1,186,868	1,202,783	1,518,092	(315,309)
Instructional Staff	904,407	968,038	1,100,389	(132,351)
District Administration	1,612,331	1,591,416	1,292,540	298,876
School Administration	1,672,457	1,625,092	1,878,923	(253,831)
Business	817,878	780,534	983,913	(203,379)
Plant operations and maintenance	3,765,029	3,850,362	4,183,516	(333,154)
Student transportation	2,005,796	2,079,988	1,964,078	115,910
Food services	16,458	0	7,147	(7,147)
Community services	7,361	4,947	(4,787)	9,734
Facilities acquisition and construction	9,000	503,906	0	503,906
Debt service	1,100	0	2,250	(2,250)
Contingency	1,852,023	1,785,382	0	1,785,382
<b>TOTAL EXPENDITURES</b>	<u>31,374,518</u>	<u>32,155,919</u>	<u>34,856,458</u>	<u>(2,700,539)</u>
Excess (deficit) of revenues over expenditures	<u>(3,616,563)</u>	<u>(3,831,970)</u>	<u>(361,311)</u>	<u>3,470,659</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers out	(247,600)	(247,600)	(259,611)	(12,011)
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<u>(247,600)</u>	<u>(247,600)</u>	<u>(259,611)</u>	<u>(12,011)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(3,864,163)	(4,079,570)	(620,922)	3,458,648
<b>Fund Balance, July 1, 2008</b>	<u>3,864,163</u>	<u>4,079,570</u>	<u>4,449,090</u>	<u>369,520</u>
<b>Fund Balance, June 30, 2009</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,828,168</u>	<u>\$ 3,828,168</u>

See independent auditor's report and accompanying notes to financial statements

NOTE: The on-behalf payments of \$6,087,398 from the state are included in both revenues and expenditures in the actual column; however, this amount was not required to be included in the budget.

MARSHALL COUNTY SCHOOL DISTRICT  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUND**

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
From Local Sources:				
Tuition	\$ 0	\$ 0	\$ 214	\$ 214
Earnings on Investments	0	1,000	808	(192)
Intergovernmental - State	2,385,419	2,071,313	1,756,397	(314,916)
Intergovernmental - Indirect federal	1,271,763	2,405,027	2,793,755	388,728
<b>TOTAL REVENUES</b>	<u>3,657,182</u>	<u>4,477,340</u>	<u>4,551,174</u>	<u>73,834</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction	3,062,033	3,919,958	3,978,718	(58,760)
Support Services:				
Student support services	7,370	27,945	28,163	(218)
Instructional Staff	199,484	203,506	225,231	(21,725)
District admin support	33,530	14,844	21,845	(7,001)
Student transportation	156,765	126,272	118,893	7,379
Community service activities	267,200	276,380	271,569	4,811
<b>TOTAL EXPENDITURES</b>	<u>3,726,382</u>	<u>4,568,905</u>	<u>4,644,419</u>	<u>(75,514)</u>
Excess (deficit) of revenues over expenditures	<u>(69,200)</u>	<u>(91,565)</u>	<u>(93,245)</u>	<u>(1,680)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	69,200	93,245	93,245	0
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<u>69,200</u>	<u>93,245</u>	<u>93,245</u>	<u>0</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	1,680	0	(1,680)
<b>Fund Balance, July 1, 2008</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Fund Balance, June 30, 2009</b>	<u>\$ 0</u>	<u>\$ 1,680</u>	<u>\$ 0</u>	<u>\$ (1,680)</u>

See independent auditor's report and accompanying notes to financial statements

**OTHER SUPPLEMENTARY INFORMATION**

MARSHALL COUNTY SCHOOL DISTRICT  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
June 30, 2009

	<u>SEEK Capital Outlay Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS AND RESOURCES:</b>				
Cash and cash equivalents	\$ 197,133	\$ 355,643	\$ 96,584	\$ 649,360
<b>TOTAL ASSETS AND RESOURCES</b>	<u>\$ 197,133</u>	<u>\$ 355,643</u>	<u>\$ 96,584</u>	<u>\$ 649,360</u>
 <b>LIABILITIES AND FUND BALANCE:</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
<b>TOTAL LIABILITIES</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 <b>EQUITY AND FUND BALANCES:</b>				
Reserved for:				
Construction projects	197,133	24,122	0	221,255
Unreserved:				
Undesignated, reported in:				
Capital projects funds	0	331,521	0	331,521
Debt service funds	0	0	96,584	96,584
<b>TOTAL FUND BALANCES</b>	<u>197,133</u>	<u>355,643</u>	<u>96,584</u>	<u>649,360</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 197,133</u>	<u>\$ 355,643</u>	<u>\$ 96,584</u>	<u>\$ 649,360</u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2009

	SEEK Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>				
From Local Sources:				
Earnings on Investments	\$ 0	\$ 6,611	\$ 57	\$ 6,668
Intergovernmental - State	433,698	0	400,562	834,260
<b>TOTAL REVENUES</b>	<b>433,698</b>	<b>6,611</b>	<b>400,619</b>	<b>840,928</b>
<b>EXPENDITURES:</b>				
Facilities acquisition and construction	0	343,366	0	343,366
Debt service	0	0	2,188,671	2,188,671
<b>TOTAL EXPENDITURES</b>	<b>0</b>	<b>343,366</b>	<b>2,188,671</b>	<b>2,532,037</b>
Excess (deficit) of revenues over expenditures	433,698	(336,755)	(1,788,052)	(1,691,109)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	0	248,976	1,791,114	2,040,090
Operating transfers out	(259,627)	0	0	(259,627)
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<b>(259,627)</b>	<b>248,976</b>	<b>1,791,114</b>	<b>1,780,463</b>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	174,071	(87,779)	3,062	89,354
Fund Balance, July 1, 2008	23,062	443,422	93,522	560,006
Fund Balance, June 30, 2009	<b>\$ 197,133</b>	<b>\$ 355,643</b>	<b>\$ 96,584</b>	<b>\$ 649,360</b>

See independent auditor's report and accompanying notes to financial statements

**MARSHALL COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
DEBT SERVICE FUNDS**

For the Year Ended June 30, 2009

	1998B BONDS FUND	1999 BONDS FUND	2003 BONDS FUND	2004 BONDS FUND	2007 BONDS FUND	2008 BONDS FUND	NOW ACCOUNT	Totals Debt service Fund
REVENUES:								
From local sources:								
Earnings on investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 57	\$ 57
Intergovernmental - State	193,187	0	0	51,771	137,110	18,494	0	400,562
<b>TOTAL REVENUES</b>	<u>193,187</u>	<u>0</u>	<u>0</u>	<u>51,771</u>	<u>137,110</u>	<u>18,494</u>	<u>57</u>	<u>400,619</u>
EXPENDITURES:								
Debt Service:								
Principal	575,000	150,000	70,000	30,000	75,000	345,000	0	1,245,000
Interest	79,575	28,400	13,657	571,007	153,838	97,194	0	943,671
<b>TOTAL EXPENDITURES</b>	<u>654,575</u>	<u>178,400</u>	<u>83,657</u>	<u>601,007</u>	<u>228,838</u>	<u>442,194</u>	<u>0</u>	<u>2,188,671</u>
Excess (deficit) of revenues over expenditures	<u>(461,388)</u>	<u>(178,400)</u>	<u>(83,657)</u>	<u>(549,236)</u>	<u>(91,728)</u>	<u>(423,700)</u>	<u>57</u>	<u>(1,788,052)</u>
OTHER FINANCING SOURCES (USES):								
Operating transfers in	461,388	178,400	87,607	549,236	91,728	422,755	0	1,791,114
<b>TOTAL OTHER FINANCING     SOURCES (USES)</b>	<u>461,388</u>	<u>178,400</u>	<u>87,607</u>	<u>549,236</u>	<u>91,728</u>	<u>422,755</u>	<u>0</u>	<u>1,791,114</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	0	3,950	0	0	(945)	57	3,062
Fund balance July 1, 2008	542	386	77,354	547	0	945	13,748	93,522
Fund balance June 30, 2009	<u>\$ 542</u>	<u>\$ 386</u>	<u>\$ 81,304</u>	<u>\$ 547</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,805</u>	<u>\$ 96,584</u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**COMBINING BALANCE SHEET--ALL ACTIVITY FUNDS**  
 June 30, 2009

	Benton Elementary	Calvert Elementary	Central Elementary	Jonathan Elementary	Sharpe Elementary	South Elementary	Benton Middle	North Middle	South Middle	Marshall County High School	Marshall County Technical Center	Totals (Memorandum Only)
<b>ASSETS:</b>												
Cash and cash equivalents	\$ 22,537	\$ 45,013	\$ 9,732	\$ 7,670	\$ 17,609	\$ 9,261	\$ 7,724	\$ 33,907	\$ 7,792	\$ 297,623	\$ 34,672	\$ 493,540
Accounts Receivable	166	842	493	0	0	175	2,743	6,171	433	6,271	70	17,364
Due from Governmental Funds	433	133	214	0	0	0	713	0	2,812	535	901	5,741
<b>TOTAL ASSETS</b>	<b>\$ 23,136</b>	<b>\$ 45,988</b>	<b>\$ 10,439</b>	<b>\$ 7,670</b>	<b>\$ 17,609</b>	<b>\$ 9,436</b>	<b>\$ 11,180</b>	<b>\$ 40,078</b>	<b>\$ 11,037</b>	<b>\$ 304,429</b>	<b>\$ 35,643</b>	<b>\$ 516,645</b>
<b>LIABILITIES:</b>												
Accounts Payable	\$ 2,581	\$ 745	\$ 1,692	\$ 1,959	\$ 1,881	\$ 889	\$ 6,537	\$ 543	\$ 297	\$ 237	\$ 399	\$ 17,760
Due to Governmental Funds	0	2,238	0	0	0	0	2,500	0	0	2,216	218	7,172
Due to Student Groups	20,555	43,005	8,747	5,711	15,728	8,547	2,143	39,535	10,740	301,976	35,026	491,713
<b>TOTAL LIABILITIES</b>	<b>\$ 23,136</b>	<b>\$ 45,988</b>	<b>\$ 10,439</b>	<b>\$ 7,670</b>	<b>\$ 17,609</b>	<b>\$ 9,436</b>	<b>\$ 11,180</b>	<b>\$ 40,078</b>	<b>\$ 11,037</b>	<b>\$ 304,429</b>	<b>\$ 35,643</b>	<b>\$ 516,645</b>
<b>NET ASSETS HELD IN TRUST</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO STUDENT GROUPS**  
**ALL ACTIVITY FUNDS**  
For the Year Ended June 30, 2009

	Benton Elementary	Calvert Elementary	Central Elementary	Jonathan Elementary	Sharpe Elementary	South Elementary	Benton Middle	North Middle	South Middle	Marshall County High School	Marshall County Technical Center	Totals (Memorandum only)
<b>REVENUES:</b>												
From local sources:												
Earnings on Investments	\$ 595	\$ 942	\$ 163	\$ 106	\$ 527	\$ 59	\$ 266	\$ 713	\$ 295	\$ 6,309	\$ 832	\$ 10,807
Student activities	93,625	64,253	55,245	37,464	95,328	44,930	107,713	104,168	59,089	639,814	65,312	1,366,941
<b>Total Revenues</b>	<b>94,220</b>	<b>65,195</b>	<b>55,408</b>	<b>37,570</b>	<b>95,855</b>	<b>44,989</b>	<b>107,979</b>	<b>104,881</b>	<b>59,384</b>	<b>646,123</b>	<b>66,144</b>	<b>1,377,748</b>
<b>EXPENDITURES</b>												
Student Activities	90,149	60,512	66,152	36,574	91,859	57,447	105,920	93,649	53,825	539,914	82,130	1,278,131
Total expenditures	90,149	60,512	66,152	36,574	91,859	57,447	105,920	93,649	53,825	539,914	82,130	1,278,131
Excess (deficit) of revenues over expenditures	4,071	4,683	(10,744)	996	3,996	(12,458)	2,059	11,232	5,559	106,209	(15,986)	99,617
Due to student groups, July 1, 2008	16,484	38,322	19,491	4,715	11,732	21,005	84	28,303	5,181	195,767	51,012	392,096
Due to student groups, June 30, 2009	<u>\$ 20,555</u>	<u>\$ 43,005</u>	<u>\$ 8,747</u>	<u>\$ 5,711</u>	<u>\$ 15,728</u>	<u>\$ 8,547</u>	<u>\$ 2,143</u>	<u>\$ 39,535</u>	<u>\$ 10,740</u>	<u>\$ 301,976</u>	<u>\$ 35,026</u>	<u>\$ 491,713</u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY HIGH SCHOOL ACTIVITY FUND  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES**  
 FOR THE YEAR ENDED JUNE 30, 2009

	<b>Cash Balance</b>	<b>Receipts</b>		<b>Disbursements</b>	
	<b>July 1, 2008</b>	<b>Actual</b>	<b>Budget</b>	<b>Actual</b>	<b>Budget</b>
Student Fees	\$ 1,145.69	\$ 27,451.74	\$ 27,000.00	\$ 24,559.68	\$ 24,000.00
Interest	16,333.05	27,723.02	20,000.00	24,571.56	16,000.00
MC Mason Benefit Fund	1,740.97	1,526.50	0.00	2,726.59	0.00
Student Activity	2,698.35	2,166.55	9,000.00	4,157.13	6,500.00
Student Incentive	100.00	500.00	0.00	600.00	0.00
Student Benefit Fund	113.51	1,481.96	0.00	400.00	0.00
Student ID Fund	481.14	530.00	700.00	322.85	400.00
Book Fees	21,636.28	32,246.78	28,000.00	19,979.28	28,000.00
Parking	917.58	1,173.10	1,300.00	0.00	1,200.00
Academic	0.00	2,288.73	0.00	1,436.42	0.00
Administration	1,632.87	1,821.49	3,000.00	2,962.91	2,000.00
Art Club	341.89	275.00	301.89	517.89	0.00
Beta/NHS Club	496.36	736.50	5,251.44	256.45	4,000.00
Business Management	799.34	8,638.44	0.00	8,541.22	0.00
Chess Club	58.54	0.00	0.00	0.00	0.00
Drama Club	4,649.60	0.00	1,500.00	0.00	1,500.00
Drama Musical	9,682.24	11,009.67	0.00	6,040.89	0.00
FEA Club	244.53	785.15	1,050.00	722.76	750.00
Focus	62.22	150.00	200.00	158.99	200.00
FBLA	1,392.50	6,199.58	8,550.00	7,285.51	6,780.00
FFA	2,514.22	37,362.78	9,700.00	13,773.52	8,000.00
Purchase Region FFA	0.00	7,289.44	0.00	6,855.04	0.00
Hometown Scholarship	3,619.76	88.00	0.00	288.00	0.00
French Club	121.67	1,132.00	1,410.00	1,223.77	1,260.00
Freshman Focus	500.00	0.00	0.00	116.35	0.00
Marshall Girls	3,301.77	2,990.28	1,500.00	471.95	200.00
Peer Intervention	0.88	0.00	0.00	0.88	0.00
Psychology Club	879.99	491.00	837.19	1,025.14	300.00
Pep Club	1,174.14	1,166.36	2,820.25	865.78	1,390.00
Dodgeball Club	107.01	0.00	0.00	0.00	0.00
Science Club	2,256.41	0.00	2,330.60	337.36	600.00
Science Olympiad	254.72	1,133.68	905.00	914.80	900.00
Scrapbook Club	30.00	0.00	30.00	30.00	0.00
NSSP	1,356.17	75.00	1,356.17	75.00	0.00
Spanish Club	0.00	409.48	0.00	301.60	0.00
Student Council	771.90	2,117.32	3,439.29	2,430.04	2,850.00
T.S.A.	290.80	1,897.55	1,338.64	2,188.35	424.00
Photography Club	0.00	805.00	0.00	423.50	0.00
Agriculture	337.79	2,685.60	3,900.00	2,996.96	3,600.00
Technology Fund	278.01	27.20	0.00	0.00	0.00
Art II	32.52	2,554.00	1,700.00	2,132.85	1,700.00
Art I	549.26	2,986.00	3,000.00	3,288.42	3,000.00
Band	178.52	758.98	250.00	933.81	200.00
Internet Fund	907.77	297.25	900.00	114.95	200.00
English Dept.	205.67	400.00	150.00	0.00	150.00
Hackesack Club	0.00	125.00	200.00	0.00	200.00
FCCLA	17,484.37	20,789.70	9,175.00	20,539.90	9,175.00
Go Club	0.00	40.00	0.00	0.00	0.00
Horticulture	19,756.70	18,098.05	16,000.00	37,854.75	15,000.00
Journalism	750.57	0.00	1,000.00	748.40	300.00
JSA	2.00	0.00	0.00	2.00	0.00
Library Dept.	74.72	15,204.99	1,300.00	14,455.84	1,300.00
Math Department	630.75	640.00	0.00	509.26	0.00
Music/Choir	1,450.06	3,539.00	1,600.00	4,131.66	1,300.00
P. E. Dept.	45.00	0.00	15.00	0.00	10.00
TV Studio	0.00	50.00	0.00	0.00	0.00
Real World Publishing	3,008.45	4,282.43	4,000.00	3,013.89	2,000.00
Cheerleaders	9,191.51	43,927.97	10,000.00	39,458.33	8,800.00
Durrett Tennis Fund	305.85	0.00	0.00	121.08	0.00
Athletics - All sports combined	40,954.13	371,262.88	211,659.19	314,993.54	186,159.19
Junior/Senior Class	5,267.42	9,739.10	8,000.00	8,389.14	7,000.00
Project Graduation	3,243.92	13,844.47	6,795.00	13,228.75	2,551.72
Annual	3,711.28	37,831.00	70,000.00	32,034.00	68,000.00
Guidance Testing	1,145.60	12,023.46	5,700.00	11,942.43	5,100.00
Coca Cola Scholarship	100.00	0.00	100.00	100.00	0.00
David Allen Hurst Fund	40.00	0.00	40.00	40.00	0.00
Fine Arts Fund	4,186.92	4,572.00	6,000.00	4,103.43	4,500.00
Fine Arts Scholarship	3,332.02	1,600.00	1,700.00	500.00	1,700.00
Total Central Fund	<u>198,876.91</u>	<u>750,941.18</u>	<u>494,704.66</u>	<u>652,194.60</u>	<u>429,199.91</u>
Less: Interfund Transfers	0.00	107,908.41	0.00	107,908.41	0.00
<b>Total</b>	<u><b>\$ 198,876.91</b></u>	<u><b>\$ 643,032.77</b></u>	<u><b>\$ 494,704.66</b></u>	<u><b>\$ 544,286.19</b></u>	<u><b>\$ 429,199.91</b></u>

See independent auditor's report and accompanying notes to financial statements

	<b>Cash Balance June 30, 2009</b>	<b>Accounts Receivable</b>	<b>Accounts Payable</b>	<b>Due to June 30, 2009</b>
Student Fees	\$ 4,037.75	\$ 30.00	\$ 0.00	\$ 4,067.75
Interest	19,484.51	105.50	0.00	19,590.01
MC Mason Benefit Fund	540.88	0.00	0.00	540.88
Student Activity	707.77	0.00	0.00	707.77
Student Incentive	0.00	0.00	0.00	0.00
Student Benefit Fund	1,195.47	0.00	0.00	1,195.47
Student ID Fund	688.29	0.00	0.00	688.29
Book Fees	33,903.78	0.00	22.00	33,881.78
Parking	2,090.68	0.00	0.00	2,090.68
Academic	852.31	538.71	129.49	1,261.53
Administration	491.45	116.06	0.00	607.51
Art Club	99.00	0.00	0.00	99.00
Beta/NHS Club	976.41	135.00	0.00	1,111.41
Business Management	896.56	0.00	0.00	896.56
Chess Club	58.54	0.00	0.00	58.54
Drama Club	4,649.60	0.00	0.00	4,649.60
Drama Musical	14,651.02	0.00	0.00	14,651.02
FEA Club	306.92	0.00	0.00	306.92
Focus	53.23	0.00	0.00	53.23
FBLA	306.57	0.00	0.00	306.57
FFA	26,103.48	0.00	561.00	25,542.48
Purchase Region FFA	434.40	275.00	0.00	709.40
Hometown Scholarship	3,419.76	0.00	0.00	3,419.76
French Club	29.90	0.00	0.00	29.90
Freshman Focus	383.65	0.00	0.00	383.65
Marshall Girls	5,820.10	0.00	0.00	5,820.10
Peer Intervention	0.00	0.00	0.00	0.00
Psychology Club	345.85	0.00	0.00	345.85
Pep Club	1,474.72	0.00	0.00	1,474.72
Dodgeball Club	107.01	0.00	0.00	107.01
Science Club	1,919.05	0.00	0.00	1,919.05
Science Olympiad	473.60	0.00	0.00	473.60
Scrapbook Club	0.00	0.00	0.00	0.00
NSSP	1,356.17	0.00	0.00	1,356.17
Spanish Club	107.88	0.00	0.00	107.88
Student Council	459.18	0.00	0.00	459.18
T.S.A.	0.00	0.00	0.00	0.00
Photography Club	381.50	0.00	0.00	381.50
Agriculture	26.43	0.00	0.00	26.43
Technology Fund	305.21	0.00	0.00	305.21
Art II	453.67	0.00	0.00	453.67
Art I	246.84	0.00	0.00	246.84
Band	3.69	0.00	0.00	3.69
Internet Fund	1,090.07	0.00	0.00	1,090.07
English Dept.	605.67	0.00	0.00	605.67
Hackeysack Club	125.00	0.00	0.00	125.00
FCCLA	17,734.17	25.00	0.00	17,759.17
Go Club	40.00	0.00	0.00	40.00
Horticulture	0.00	0.00	0.00	0.00
Journalism	2.17	0.00	0.00	2.17
JSA	0.00	0.00	0.00	0.00
Library Dept.	823.87	233.00	18.76	1,038.11
Math Department	761.49	0.00	0.00	761.49
Music/Choir	857.40	0.00	0.00	857.40
P. E. Dept.	45.00	0.00	0.00	45.00
TV Studio	50.00	0.00	0.00	50.00
Real World Publishing	4,276.99	0.00	0.00	4,276.99
Cheerleaders	13,661.15	0.00	0.00	13,661.15
Durrett Tennis Fund	184.77	0.00	0.00	184.77
Athletics - All sports combined	97,223.47	5,317.08	1,720.48	100,820.07
Junior/Senior Class	6,617.38	0.00	0.00	6,617.38
Project Graduation	3,859.64	0.00	0.00	3,859.64
Annual	9,508.28	0.00	0.00	9,508.28
Guidance Testing	1,226.63	30.00	0.00	1,256.63
Coca Cola Scholarship	0.00	0.00	0.00	0.00
David Allen Hurst Fund	0.00	0.00	0.00	0.00
Fine Arts Fund	4,655.49	0.00	0.00	4,655.49
Fine Arts Scholarship	4,432.02	0.00	0.00	4,432.02
Total Central Fund	297,623.49	6,805.35	2,451.73	301,977.11
Less:Interfund Transfers	0.00	0.00	0.00	0.00
Total	\$ 297,623.49	\$ 6,805.35	\$ 2,451.73	\$ 301,977.11

MARSHALL COUNTY SCHOOL DISTRICT  
**COMBINING BALANCE SHEET--ALL PRIVATE PURPOSE TRUST FUNDS**  
 June 30, 2009

	Benton High Alumni	Don Buffington Memorial	Lola Collier	Ray Gann	Robert Glick Memorial	William Heath	Charles Hensley	J. Burnett Holland
<b>ASSETS:</b>								
Cash and cash equivalents	\$ 5,108	\$ 46,107	\$ 27,610	\$ 29	\$ 1,935	\$ 35,720	\$ 6,252	\$ 24,688
Interest receivable	35	0	11	0	13	244	43	0
<b>TOTAL ASSETS</b>	<b><u>\$ 5,143</u></b>	<b><u>\$ 46,107</u></b>	<b><u>\$ 27,621</u></b>	<b><u>\$ 29</u></b>	<b><u>\$ 1,948</u></b>	<b><u>\$ 35,964</u></b>	<b><u>\$ 6,295</u></b>	<b><u>\$ 24,688</u></b>
<b>NET ASSETS</b>								
<b>HELD IN TRUST</b>	<b><u>\$ 5,143</u></b>	<b><u>\$ 46,107</u></b>	<b><u>\$ 27,621</u></b>	<b><u>\$ 29</u></b>	<b><u>\$ 1,948</u></b>	<b><u>\$ 35,964</u></b>	<b><u>\$ 6,295</u></b>	<b><u>\$ 24,688</u></b>

See independent auditor's report and accompanying notes to financial statements

<u>Holland Rose</u>	<u>W. &amp; L. Holland Memorial</u>	<u>Steve Martin</u>	<u>Anthony McCarty</u>	<u>Andy Riley</u>	<u>Charlie &amp; Cora Walker</u>	<u>North Marshall Alumni</u>	<u>Buddy Poe Memorial</u>	<u>Reed Vocational Technical</u>	<u>Totals (Memorandum Only)</u>
\$ 2,304 16	\$ 107,023 0	\$ 9,340 64	\$ 363 0	\$ 9,222 63	\$ 10,589 0	\$ 964 6	\$ 1,783 0	\$ 0 0	\$ 289,037 495
<u>\$ 2,320</u>	<u>\$ 107,023</u>	<u>\$ 9,404</u>	<u>\$ 363</u>	<u>\$ 9,285</u>	<u>\$ 10,589</u>	<u>\$ 970</u>	<u>\$ 1,783</u>	<u>\$ 0</u>	<u>\$ 289,532</u>
<u>\$ 2,320</u>	<u>\$ 107,023</u>	<u>\$ 9,404</u>	<u>\$ 363</u>	<u>\$ 9,285</u>	<u>\$ 10,589</u>	<u>\$ 970</u>	<u>\$ 1,783</u>	<u>\$ 0</u>	<u>\$ 289,532</u>

MARSHALL COUNTY SCHOOL DISTRICT  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS HELD IN TRUST**  
**ALL PRIVATE PURPOSE TRUST FUNDS**  
For the Year Ended June 30, 2009

	Benton High Alumni	Don Buffington Memorial	Lola Collier	Ray Gann	Robert Glick Memorial	William Heath	Charles Hensley	J. Burnett Holland
REVENUES:								
From local sources:								
Earnings on Investments	\$ 72	\$ 1,063	\$ 778	\$ 0	\$ 28	\$ 506	\$ 87	\$ 210
Contributions	0	3,395	0	0	0	0	0	0
Total Revenues	72	4,458	778	0	28	506	87	210
EXPENDITURES								
Fundraising expenses	0	1,544	0	0	0	0	0	0
Benefits paid	200	250	500	0	300	1,125	500	250
Total expenditures	200	1,794	500	0	300	1,125	500	250
Excess (deficit) of revenues over expenditures	(128)	2,664	278	0	(272)	(619)	(413)	(40)
Net Assets Held in Trust at July 1, 2008	5,271	43,443	27,343	29	2,220	36,583	6,708	24,728
Net Assets Held in Trust at June 30, 2009	<u>\$ 5,143</u>	<u>\$ 46,107</u>	<u>\$27,621</u>	<u>\$ 29</u>	<u>\$ 1,948</u>	<u>\$35,964</u>	<u>\$ 6,295</u>	<u>\$24,688</u>

See independent auditor's report and accompanying notes to financial statements

Holland Rose	W. & L. Holland Memorial	Steve Martin	Anthony McCarty	Andy Riley	Charlie & Cora Walker	North Marshall Alumni	Buddy Poe Memorial	Reed Vocational Technical	Totals (Memorandum Only)
\$ 32 17	\$ 939 0	\$ 133 0	\$ 0 0	\$ 131 0	\$ 95 0	\$ 13 180	\$ 11 866	\$ 0 40,275	\$ 4,098 44,733
49	939	133	0	131	95	193	877	40,275	48,831
0	0	0	0	0	0	0	0	0	1,544
0	6,000	500	0	500	1,000	0	500	42,275	53,900
0	6,000	500	0	500	1,000	0	500	42,275	55,444
49	(5,061)	(367)	0	(369)	(905)	193	377	(2,000)	(6,613)
2,271	112,084	9,771	363	9,654	11,494	777	1,406	2,000	296,145
<u>\$ 2,320</u>	<u>\$107,023</u>	<u>\$ 9,404</u>	<u>\$ 363</u>	<u>\$9,285</u>	<u>\$10,589</u>	<u>\$ 970</u>	<u>\$ 1,783</u>	<u>\$ 0</u>	<u>\$ 289,532</u>

**REPORTS REQUIRED BY THE SINGLE AUDIT ACT**

MARSHALL COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Federal Expenditures
<b><u>U.S. Department of Education:</u></b>			
Passed Through State Dept. of Education:			
Special Education Grants to States	84.027	3810002-06, 07 & 08	\$ 1,169,983
Special Education Preschool Grants	84.173	3800002-06, 07 & 08	98,908
<b><i>Total Special Education Cluster</i></b>			<b>1,268,891</b>
Title I Grants to Local Educational Agencies	84.010	3100002-07 & 08	777,255
Safe and Drug-Free Schools and Communities State Grants	84.186	3410002-08	15,963
Improving Teacher Quality State Grants	84.367	3230002-08	232,635
Education Technology State Grants	84.318	3210002-07 & 08	7,954
		4610810-07, 4620810-07, 4620932-08,	
Vocational Education Basic Grants to States	84.048	4620832-07 & 4620910-08	44,702
Migrant Education State Grant Program	84.011	3110002-07 & 08	41,670
Title I Grants to Local Educational Agencies, Recovery Act	84.389	3919	104,828
Special Education Grants to States, Recovery Act	84.391	4249	4,638
Passed through State Workforce Cabinet:			
Adult Education State Grant Program	84.002	3738, 3739, 3739S & 3658S	61,483
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>2,560,019</b>
<b><u>U.S. Department of Health &amp; Human Services:</u></b>			
Passed through Murray Board of Education:			
Head Start	93.600	6558 & 6559	179,269
<b>TOTAL U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>			<b>179,269</b>
<b><u>Corporation for National and Community Service:</u></b>			
Passed Through State Dept. of Education:			
Learn and Serve America	94.004	1000002-08	8,348
<b>TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			<b>8,348</b>
<b><u>U.S. Department of Labor:</u></b>			
Passed through State Workforce Cabinet:			
WIA Youth Activities	17.259	5889	46,814
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			<b>46,814</b>
<b><u>U.S. Department of Agriculture:</u></b>			
Passed through State Dept. of Education:			
National School Lunch Program	10.555	7750002-08 & 09	821,583
School Breakfast Program	10.553	7760005-08 & 09	269,557
<b><i>Total Child Nutrition Cluster</i></b>			<b>1,091,140</b>
Passed through Kentucky Dept. of Agriculture:			
Food Commodities (Note B)	10.550	079-0100	150,723
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>1,241,863</b>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$ 4,036,313</b>

See accompanying notes to schedule  
of expenditures of federal awards

**MARSHALL COUNTY SCHOOL DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended June 30, 2009

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Marshall County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. Per USDA instructions, commodities expended are recorded at an amount equal to commodities received and the inventory at June 30, 2009 is combined with purchased food inventory.

**NOTE C – RECONCILIATION OF SCHEDULE TO FINANCIAL STATEMENTS**

The following is a reconciliation of the total in the schedule of expenditures of federal awards to the total federal revenue included in the statement of revenues, expenditures and changes in fund balances – governmental funds on page 12 of the audit report and in the statement of revenues, expenses, and changes in net assets – proprietary funds on page 15 of the audit report:

Total intergovernmental – indirect federal from page 12	\$	2,793,755
Total federal grants from page 15		1,091,140
Donated commodities from page 15		150,723
Plus: Amount of federal funds coded as a negative expenditure		<u>695</u>
Total on page 45	\$	<u><u>4,036,313</u></u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits  
and Members of the Board of Education  
Marshall County School District  
Benton, Kentucky

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2009, which collectively comprise the Marshall County School District's basic financial statements and have issued my report thereon dated November 13, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission..*

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Marshall County School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marshall County School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Marshall County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Marshall County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Marshall County School District's financial statements that is more than inconsequential will not be prevented or detected by the Marshall County School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Marshall County School District's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Marshall County School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or state audit requirements.

I noted certain matters that I reported to management of the Marshall County School District in a separate letter dated November 13, 2009.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Marshall County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Benton, Kentucky  
November 13, 2009

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits  
and Members of the Board of Education  
Marshall County School District  
Benton, Kentucky

**Compliance**

I have audited the compliance of Marshall County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Marshall County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Marshall County School District's management. My responsibility is to express an opinion on Marshall County School District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshall County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Marshall County School District's compliance with those requirements.

In my opinion, Marshall County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

## Internal Control Over Compliance

The management of Marshall County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Marshall County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Marshall County School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. In addition, the results of my tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Marshall County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Benton, Kentucky  
November 13, 2009

**MARSHALL COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2009**

**I. SUMMARY OF AUDITOR'S RESULTS:**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Marshall County School District.
2. No significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Marshall County School District were disclosed during the audit.
4. No significant deficiencies in internal control over the major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for Marshall County School District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the major federal award programs for Marshall County School District.
7. The programs tested as major programs included:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Special Education Cluster:	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
Title I Grant to Local Educational Agencies	84.010

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Marshall County School District was determined to be a low-risk auditee.

**II. FINDINGS – FINANCIAL STATEMENT AUDIT**

There were no findings in the current year required to be reported in this schedule.

**III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There were no findings in the current year required to be reported in this schedule.

**MARSHALL COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
June 30, 2009**

There were no prior year audit findings reported in the Schedule of Findings and Questioned Costs for either the Financial Statement Audit or the Major Federal Award Programs Audit.

**MANAGEMENT LETTER POINTS**

Kentucky State Committee for School District Audits  
and Members of the Board of Education of  
Marshall County School District  
Benton, Kentucky

In planning and performing my audit of the financial statements of Marshall County School District for the year ended June 30, 2009, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. A separate report dated November 13, 2009 contains my report on the District's internal control structure. This letter does not affect my report dated November 13, 2009 on the financial statements of the Marshall County School District.

I will review the status of these comments during my next audit engagement. I have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Benton, Kentucky  
November 13, 2009

**MARSHALL COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
June 30, 2009**

**CORRECTED PRIOR YEAR COMMENTS**

Benton Elementary – We did not note any sales tax paid in our tests of disbursements in the current year.

Calvert City Elementary – Interfund transfer forms were prepared properly and signed by the required personnel. Cash receipts from several sources were not combined into one receipt ticket, but were issued to each recipient. All checks in our tests contained required dual signatures. Detailed invoices were obtained for disbursements; however, there was one for which the prior balance was added to the current invoice by school personnel instead of attaching the original invoice for the prior month. The school began having an outside vendor for snack sales; therefore, the inventory control worksheets were not required.

Central Elementary – There was one deposit that was not made on a timely basis, as noted in the current year comments.

Jonathan Elementary – We noted much improvement in the area of documentation of disbursements; however there was one disbursement which should have had better documentation attached, as noted in the current year comments.

Sharpe Elementary – We noted that the school had begun tracking sales of inventory.

North Marshall Middle – We again noted charges made on credit cards for which no supporting documentation was available to support the charge and also noted a late fee paid, as listed in the current year comments.

Marshall County High – We noted proper completion of interfund transfer forms during the year. We also noted proper supporting documentation for all disbursements tested.

Marshall County Technical Center – We noted proper supporting documentation for all disbursements tested.

**CURRENT YEAR COMMENTS**

**School Food Service Participation Reimbursement Requests**

As a part of our audit procedures, we test federal reimbursement requests for food service participation. We calculate annual totals by school and for the district as a whole by using monthly recapitulations. We then compare those totals with the total for the year from the reimbursement requests. We noted a discrepancy in the numbers reported for the high school. Upon further review, we discovered non-reimbursable breakfast totals (adult breakfasts and second student breakfasts) at the high school were used for the month of October instead of reimbursable meal totals. This caused the District to lose \$3,884 of federal funds. Upon discussion with food service personnel, this occurred shortly before the departure of the food service bookkeeper. The state only allows 60 days to correct mistakes on reports. The food service director would normally have reviewed the report for reasonableness either prior to submission or within 60 days thereafter; however, the bookkeeper had resigned in the meantime and the new bookkeeper was being trained during this time and the director did not review the report in time to correct it. We recommend that the director begin comparing the reports filed to the monthly totals from the school printouts for accuracy prior to submission of the report.

**Management's Response**

The food service bookkeeper will enter school totals into a spreadsheet for calculation of district-wide totals to report on the reimbursement request (D-2 form). The food service director will compare the data entered into the spreadsheet against the individual school printouts for accuracy each month.

**MARSHALL COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS - CONTINUED**  
June 30, 2009

**School Activity Funds**

Exceptions to recommended procedures were noted at some schools as listed below. Most of the schools had only minor exceptions, and these are listed only as tools to assist the school in improving procedures and for administration to be aware of any areas which they may wish to address when conducting meetings with school personnel.

- 1) Benton Elementary School: The books and records of the activity fund were neatly and accurately kept. Cash receipts appeared to be properly recorded and deposited in a timely manner. Disbursements appeared to have proper supporting documentation, which was approved by the principal, and fund sponsor, where applicable. The staff is to be commended for the excellent condition of the records.
  
- 2) Calvert City Elementary School: We noted one cash receipt for \$151, dated December 8, 2008, which was not deposited until December 12, 2008. "Red Book" procedures state that when amounts collected accumulate to more than \$100, a deposit should be made by the next business day. Documentation for three checks included copies of invoices or store receipts, instead of the original. The Red Book states that the original invoice should be retained. We recommend that if a receipt needs to be submitted to the board office for reimbursement purposes, the copy of the receipt should be clearly marked as a copy with the explanation that the original was submitted to the board office. One current monthly invoice had an amount from the previous month manually written on the invoice and added to the current month; however, the amount was not added correctly and the wrong amount was paid. Invoices should be checked for mathematical accuracy prior to being paid, particularly invoices that are not computer prepared.

**Response** – We will make every effort to make all deposits within the time required by the Red Book. If we are required to submit original invoices or store receipts for reimbursement, we will note on the copy an explanation as to why the original invoice is not in our file. We will check manually prepared invoices for mathematical accuracy in order to avoid paying an incorrect amount.

- 3) Central Elementary School: In our test of cash receipts, we noted \$180 received on October 3, 2008 that was not deposited until October 15, 2008. "Red Book" procedures state that when amounts collected accumulate to more than \$100, a deposit should be made by the next business day. Out of six interfund transfer forms examined, one did not contain proper signatures by the principal, treasurer, or sponsor/teacher.

**Response** – We attempt to make daily deposits, but occasionally illness or lack of time does not allow for it. We will make every effort to comply with this portion of the "Red Book" in the future. We will also make every effort to have all interfund transfer forms signed by all required personnel prior to recording the transfer.

- 4) Jonathan Elementary School: In our test of disbursements, we noted one check paid to another school within the district for a field trip which was supported only by an email from the other school which stated that a receipt would be sent; however the amount was handwritten on a printout of the email, with no indication as to how the amount was calculated. We recommend that a standard invoice be used for such disbursements and that the other school document calculations on what is being requested as a reimbursement.

**Response** – In the future, we will make extra efforts to be certain that all disbursements are supported by a vendor's invoice or a standard invoice prior to making payment.

**MARSHALL COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS - CONTINUED**  
June 30, 2009

- 5) Sharpe Elementary: The books and records of the activity fund were neatly and accurately kept. Cash receipts appeared to be properly recorded and deposited in a timely manner. Disbursements appeared to have proper supporting documentation, which was approved by the principal, and fund sponsor, where applicable. The staff is to be commended for the excellent condition of the records.
- 6) South Marshall Elementary: No interfund transfer form was completed for the one transfer that was made during the year from the general fund to the flower fund. A form should be completed stating the reason for the transfer and should be approved and signed by the principal, treasurer, and (if applicable) the teacher or sponsor of the account the funds are being transferred from. We also noted one check for \$213.00 for which the documentation was \$200.13. We did not find any indication that the vendor had noticed the error and refunded or credited the difference. We recommend contacting the vendor for a refund.

**Response** – The auditor has explained the process for completing the transfer form to the secretary. We normally do not make transfers between funds, but an amount had been incorrectly coded to the wrong account and we needed to transfer the funds to correct the original entry. We will use the proper form when necessary in the future. We will contact the vendor regarding the overpayment and will take more care to review the invoices at the time of payment to be certain that the check amount matches the invoice amount.

- 7) Benton Middle: The books and records of the activity fund were neatly and accurately kept. Cash receipts appeared to be properly recorded and deposited in a timely manner. Disbursements appeared to have proper supporting documentation, which was approved by the principal, and fund sponsor, where applicable. Activity fund transfers appeared to have proper supporting documentation with approvals by the fund sponsor. The staff is to be commended for the excellent condition of the records. This is the second consecutive year without exceptions noted at this school.
- 8) North Middle: In our test of disbursements, we noted a late fee of \$50.40 paid with one check and three charges on credit cards of \$712.64 to Amazon.com, \$14.82 to Amazon.com and \$30 to Elder-Beerman. Amounts should be paid in a timely manner to avoid late fees. Any individual who is allowed to purchase items with a school credit card should be reminded to submit all receipts to the office so that the receipts may be compared to the credit card bill prior to making payment.

**Response** – We will make every effort to pay all bills in a timely manner and will remind school personnel that receipts must be submitted to the office in order to have documentation for all amounts that are charged to our credit card.

- 9) South Middle: The books and records of the activity fund were neatly and accurately kept. Cash receipts appeared to be properly recorded and deposited in a timely manner. Disbursements appeared to have proper supporting documentation, which was approved by the principal, and fund sponsor, where applicable. Activity fund transfers appeared to have proper supporting documentation with approvals by the fund sponsor. The staff is to be commended for the excellent condition of the records. This is the second consecutive year without exceptions noted at this school.

**MARSHALL COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS - CONCLUDED**

June 30, 2009

- 10) Marshall County High: The books and records of the activity fund were neatly and accurately kept. Cash receipts appeared to be properly recorded and deposited in a timely manner. Disbursements appeared to have proper supporting documentation, which was approved by the principal, and fund sponsor, where applicable. Activity fund transfers appeared to have proper supporting documentation with approvals by the fund sponsor.
  
- 11) Marshall County Technical Center: The books and records of the activity fund were neatly and accurately kept. Cash receipts appeared to be properly recorded and deposited in a timely manner. Disbursements appeared to have proper supporting documentation, which was approved by the principal, and fund sponsor, where applicable. Activity fund transfers appeared to have proper supporting documentation with approvals by the fund sponsor.